UNDER SECRETARY OF DEFENSE
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COMPTROLLER

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
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SUBJECT: Policy for the Depreciation of DoD General Property, Plant and Equipment Assets

The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment (PP&E)," published by the Office of Management and Budget, requires all federal agencies to record the acquisition cost of General PP&E in their accounting records and, in addition, to compute depreciation on that PP&E. The cost of each agency's General PP&E, and the related accumulated depreciation, must be reported on each agency's annual financial statements beginning with FY 1998 financial statements.

This office is in the process of modifying the "DoD Financial Management Regulation" (DoD 7000.14-R) to incorporate the accounting principles, standards and reporting requirements of SFFAS No. 6. Since this will not be completed until late Spring, I am issuing the policy for depreciating DoD General PP&E assets with this memorandum to provide additional time to implement the requirements of this policy.

The policy for depreciating DoD General PP&E is at Attachment A and is applicable to all DoD Components. Attachment B contains guidance to implement this policy. DoD Components shall immediately implement the requirements of this policy and report the cost and depreciation of General PP&E assets on FY 1998 financial statements. Implementing this policy requires the effort of more than just the financial communities within the DoD Components, since non-financial feeder systems (e.g., property data bases) must provide the financial systems with the necessary General PP&E asset information.

If you have any questions pertaining to this policy or implementation guidance, my point of contact is Mr. Stephen Tabone. He may reached by email at tabones@ousdc.osd.mil or by telephone at (703) 693-6520.

William J. Lynn

Attachments

DEPARTMENT OF DEFENSE
GENERAL PP&E DEPRECIATION POLICY

The following depreciation policy is consistent with the requirements contained in the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment." This policy will be incorporated into the appropriate chapters and volumes of the "DoD Financial Management Regulation" (DoD 7000.14-R).

General: DoD Property, Plant and Equipment (PP&E) assets are those assets that have a cost basis that equals or exceeds the current DoD capitalization threshold ($100,000) and have a useful life or two or more years--often called "capital assets." DoD General PP&E includes all capital assets that are not National Defense PP&E, Heritage Assets or Stewardship Land. DoD General PP&E, shall be capitalized and depreciated. Such capitalized amounts, as well as associated amounts of accumulated depreciation and depreciation expense, shall be reflected on DoD reporting entity's financial statements beginning with periods ending after September 30, 1997.

Method of Depreciation: Only the straight-line method of depreciation is permitted.

Cost Basis: The basis, also known as the recorded cost, for depreciation is the acquisition cost of an asset plus any costs required to bring the asset into an operating condition. Examples of costs required to bring an asset into an operating condition include freight fees, handling and storage costs, installation costs, and set-up costs.

Salvage Value: The salvage value, also known as the residual or scrap value, of a General PP&E asset is the amount that would be expected to be obtained from selling the asset at the end of its useful life. If the asset is to be traded in on a new asset, the salvage value is the expected trade-in value. For purposes of computing depreciation, real property assets (i.e., buildings, facilities, and structures) do not have salvage values.

Depreciable Basis: The depreciable basis of a General PP&E asset is the cost basis reduced by the asset's salvage value, if such salvage value exceeds 10 percent of the asset's cost. If the salvage value is 10 percent or less of the asset's cost, the salvage value is not considered material for purposes of calculating depreciation, and, therefore, should not be considered when determining the depreciable basis. (In other words, if the salvage value is 10 percent or less of the asset's cost, the depreciable basis should be the same as the cost basis.) Land is not subject to deprecation. When land and a building are purchased together, the depreciable basis is the total cost less the cost of the land.

Useful Life: For purposes of computing depreciation on DoD General PP&E assets, specific recovery periods are prescribed. The table on the following page reflects the recovery periods to be used for DoD General PP&E.

Calculation of Depreciation: The computation of depreciation shall commence in the month following the date of receipt shown on the asset's receiving document, or the date the asset is installed and ready for use (regardless of whether it is actually used)--whichever is later. If an asset remains in use longer than its estimated useful life, it shall be retained on the accounting record, at its residual, or salvage, value (which could be $0) until the asset is disposed.

DoD RECOVERY PERIODS FOR DEPRECIABLE GENERAL PP&E ASSETS (Excludes All National Defense PP&E and Heritage Assets)

Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks & Buses), ADP Systems and Hardware (Computers and Peripherals), High Tech Medical Equipment, Equipment Used in RDT&E, Radio and Television Broadcasting Equipment, Commercial Software	5 Years
Printing, Publishing and Duplicating Equipment; Telecommunication Equipment and Towers, Internally Developed Software	10 Years
All Other Equipment, Machinery and Automated Warehouse Retrieval Systems	12 Years
• Vessels, Tugs, Barges and Similar Water Transportation Equipment (non-National Defense PP&E vessels/ships) • Steam (12.5K pounds per hour or more) and Electric Generation Equipment (500 Kilowatt or more) • Improvements Made or Added to Land (i.e., Fences, Roads, Bridges, Sewers, Ship and Railroad Wharves and Docks, Dry Docks)(Includes Improvements Made to Stewardship Land)	20 Years
Buildings, Leasehold Improvements to Buildings (Includes Improvements to Heritage Buildings), Hangars, Warehouses, Fuel Storage Facilities, Air Traffic Control Towers, and Other Real Property Structures	40 Years

IMPLEMENTATION GUIDANCE FOR
DoD GENERAL PP&E DEPRECIATION POLICY

This paper provides implementation guidance for the depreciation of General PP&E assets. To minimize the impact on Defense Working Capital Fund (DWCF) activity rates, the implementation guidance is different for DWCF activities than the implementation guidance for all other DoD activities. This implementation guidance will be incorporated in the pending revision to the "DoD Financial Management Regulation" (DoD 7000.14-R).

For purposes of the following implementation guidance, "new depreciation policy" refers to the policy for depreciation at Tab A and "old depreciation policy" refers to the existing depreciation policy for DWCF activities contained in Volume 11B of the "DoD Financial Management Regulation."

<u>All DoD Activities Except DWCF Activities</u>: Beginning with FY 1998, financial statements shall reflect the cost of General PP&E assets that equal or exceed the current DoD capitalization threshold. If the historical cost of existing General PP&E assets has not been maintained and is not known, estimates* shall be required. All General PP&E assets that previously were capitalized based on thresholds lower than the current DoD capitalization threshold (of $100,000) shall be expensed in FY 1998. Such expensed amounts shall be offset to the "Net Position" of the entity. The amount of the adjustment shall be shown as a "prior period adjustment" in the "Statement of Changes in Net Position."

Depreciation shall be calculated on all newly acquired and existing General PP&E using the new depreciation policy addressed in Attachment A.

<u>DWCF Activities</u>: The new depreciation policy addressed in Attachment A shall be effective for all General PP&E assets acquired on or after October 1, 1999. The financial statements of DWCF activities shall continue to reflect depreciation amounts for General PP&E assets acquired prior to FY 2000 using the old depreciation policy.

All General PP&E assets that were capitalized at thresholds lower than the current DoD capitalization threshold shall continue to be reflected on the entity's balance sheet and shall continue to be depreciated using the old depreciation policy.

The depreciation of real property assets shall be reflected on DWCF activity financial statements beginning with FY 1998, even though such depreciation amounts are not included in DWCF rates. If the historical cost of existing real property assets has not been maintained and is not known, estimates* shall be required.

* Estimates shall be based on:
  - Cost of similar assets at the time of acquisition, or
  - Current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition through the use of a general price index).

Attachment B